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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS

KRISTIN K. MAYES, Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
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AZ CORP COMMISSION
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IN THE MATTER OF THE APPLICATION OF
CHAPARRAL CITY WATER COMPANY,
INC., AN ARIZONA CORPORATION FOR A
DETERMINATION OF THE CURRENT FAIR
VALUE OF ITS UTILITY PLANT AND
PROPERTY AND FOR INCREASES IN ITS
RATES AND CHARGES FOR UTILITY
BASED THEREON.

DOCKET NO. W-02113A-07-0551

**NOTICE OF FILING WITNESS
SUMMARIES**

Staff of the Arizona Corporation Commission ("Staff") hereby provides the witness
summaries of Staff witnesses Messrs. David C. Parcell and Elijah O. Abinah.

RESPECTFULLY SUBMITTED this 6th day of January, 2009.

Robin R. Mitchell, Staff Counsel
Amanda Ho, Staff Counsel
Wesley C. Van Cleve, Staff Counsel
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007
(602) 542-3402

Original and 13 copies of the foregoing filed
this 6th day of January, 2009 with:

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8 Copies of the foregoing were mailed this
9 6th day of January, 2009 to:

10 Norman D. James
11 Jay L. Shapiro
12 FENNEMORE CRAIG
13 3003 North Central Avenue, Suite 2600
14 Phoenix, AZ 85012
15 Attorneys for Chaparral City Water Co.

16 Daniel W. Pozefsky, Chief Counsel
17 RUCO
18 1110 West Washington Street, Suite
19 220
20 Phoenix, AZ 85007-2958

21 Craig A. Marks
22 CRAIG A. MARKS, PLC
23 10645 North Tatum Boulevard
24 Suite 200-676
25 Phoenix, Arizona 85028

26 Phil Green
27 OB SPORTS F/B MANAGEMENT
28 (EM), LLC
Pacific Life Insurance Co. dba Eagle
Mountain Golf Club
7025 E. Greenway Parkway, Suite 550
Scottsdale, AZ 85254-2159

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SUMMARY OF REBUTTAL TESTIMONY

DAVID C. PARCELL

ON BEHALF OF UTILITIES DIVISION STAFF

APPLICATION OF CHAPARRAL WATER COMPANY, INC.

DOCKET NO. W-02113a-07-0551

The purpose of my testimony in this proceeding is to recommend a cost of capital for Chaparral City Water Company, Inc. ("Chaparral"). My testimony has reviewed the Direct Testimony filed on October 3, 2008 by Utilities Division Staff Witness Pedro Chavez M Chavez ("Staff Testimony") and I am adopting the cost of common equity (10.0%) and total cost of capital (8.80%) proposed in the Staff Testimony.

Even though my Rebuttal Testimony agrees with and adopts the cost of equity and total cost of capital recommendations of the Staff testimony, I have not endorsed each and every methodology and/or data source used in the Staff Testimony. In general, however, I do agree with the methodologies and data sources used in the Staff Testimony.

I concur with the selection of proxy groups that the Staff Testimony, as well as Chaparral's testimony, uses to apply its cost of equity models. I also agree with the use of the DCF and CAPM models utilized in the Staff Testimony.

I agree with the constant-growth DCF analysis as employed in the Staff Testimony. I concur with and adopt the 8.8 percent conclusion reached in this analysis. I am in general agreement with the multi-stage DCF analysis in the Staff Testimony, but believe that the use of historic growth in gross domestic product (GDP) should be used in conjunction with government projections of GDP, which would reduce the DCF conclusion. Nevertheless, I accept and adopt the 9.8 percent multi-stage DCF results from the Staff Testimony.

I am in general agreement with the Staff Testimony's historic risk premium CAPM analyses. I do have issues with the exclusive use of arithmetic growth rates (i.e., excluding geometric growth rates) and the use of income returns on bonds rather than total returns. As a result, I have recommended a 10.75 percent historic risk premium CAPM, rather than the 11.2 percent conclusion as found in the Staff

Testimony. I have some disagreements with the current risk premium CAPM as contained in the Staff Testimony and do not adopt this methodology or its conclusions.

I am thus recommending a cost of equity range of 9.3 percent (DCF conclusion) to 10.75 percent (CAPM conclusion), with a mid-point of 10.0 percent. This is the same recommendation as contained in the Staff Testimony.

I also agree with the capital structure and cost of debt as derived in the Staff Testimony. Combining these with the 10.0 percent cost of equity recommendation produces an 8.80 percent total cost of capital, which also matches that recommended in the Staff Testimony.

Finally, I describe how the current capital market conditions impact the cost of capital for Chaparral. I indicate that the U.S. and global economies are currently in a recession, perhaps a significant one. I also indicate that this has resulted in a dramatic decline in stock prices, while debt yield have either declined dramatically (short-term), declined moderately (long-term government bonds) or increased (corporate bonds). I also indicate that these factors should not be used as a reason to increase the cost of equity for Chaparral (or any other utility) for two sets of reasons. First, the recession has negatively impacted Chaparral's ratepayers, meaning it would be inappropriate to also request a higher return component in Chaparral's rates in order to insulate the company from the same recessionary impacts that its customers cannot be insulated from (fairness reason). Second, the cost of capital is prospective in nature, which when viewed in connection with the hopefully short-term impacts of the recession, indicates that such conditions are more transitory and not descriptive of long-run conditions (normalcy reason). For these reasons, I maintain that no adjustments be made to the traditional use of long-term models and inputs at this time.

**SUMMARY OF TESTIMONY
ELIJAH O. ABINAH**

In my position as Assistant Director of the Utilities Division of the Arizona Corporation Commission, I make various policy recommendations to the Utilities Director. As such, I will testify regarding Staff's policy decisions with respect to the methodologies proposed by Staff witness Gordon Fox.